UNITED NATIONS

DP

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.
GENERAL

DP/1995/37
2 May 1995

ORIGINAL: ENGLISH

Annual session 1995
5-16 June 1995, New York
Item 11 of the provisional agenda

UNITED NATIONS OFFICE FOR PROJECT SERVICES

Implementation of decisions 94/32 and 95/1 on the United Nations Office for Project Services

Report of the Executive Director

I. INTRODUCTION

1. The present report is submitted to the Executive Board pursuant to paragraph 9 of decision 94/32 and to paragraph 8 of decision 95/1. In these decisions, the Board requested the Executive Director of the United Nations Office for Project Services (UNOPS) to report, respectively, on: (a) UNOPS activities and (b) the outcome of the review of UNOPS Financial Regulations and Rules, in light of the experience of their operation and the observations of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) contained in document DP/1995/13.

2. The present report is prepared in conjunction with the annual report of the Administrator, which provides information on OPS activities in 1994.

3. With regard to the UNOPS Financial Regulations and Rules, the present report provides an update on the ongoing review of the status and application of the Financial Regulations and the development of new Financial Rules. Pending the finalization of these Rules, the UNDP Rules apply, mutatis mutandis, to UNOPS operations. Also, as requested by ACABQ in document DP/1995/13, attention has been given to the definitions of certain financial terms contained in the Financial Regulations and care has been taken to provide initial information on the risks and liabilities that would be a factor in determining the level of the operational reserve in the future.

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II. STATUS AND APPLICATION OF UNOPS FINANCIAL REGULATIONS AND DEVELOPMENT OF NEW FINANCIAL RULES

A. Agreements

4. In accordance with Financial Regulation 5.3, UNOPS will enter into such written arrangements as are necessary to undertake UNOPS activities. The first agreement needed is one that defines the new relationship between UNDP and UNOPS and this is being formulated. In addition, UNDP and UNOPS are preparing an agreement that will cover the nature and extent of central services that UNDP will render to UNOPS, both at headquarters and in the field. It is expected that both agreements will be concluded by September 1995.

B. Terminology used in UNOPS Financial Regulations

5. In respect of Financial Regulation 2.2 and the ACABQ comments on certain definitions contained in that Regulation, UNOPS is reviewing these recommendations with a view to ensuring that changes are made as appropriate. The term "planning period" used in Regulation 6.1 will be redefined as requested in document DP/1995/7/Add.1. Likewise, as mandated by the Executive Board, Regulation 6.8 will be amended by changing the term "Advisory Committee" to "Advisory Committee on Administrative and Budgetary Questions (ACABQ)".

C. UNOPS Procurement Review and Advisory Committee

6. Immediately upon promulgation of the UNOPS Financial Regulations in January 1995 and pursuant to Regulation 10.5, a UNOPS contracts committee (the "Procurement Review and Advisory Committee") was established and meets once a week on UNOPS premises. It is composed of staff from UNDP and UNOPS and functions pursuant to guidelines based closely on those of the UNDP contracts committees. The Committee reviews proposed contracts exceeding $100,000 and submits its recommendations to the UNOPS Executive Director in his capacity of Chief Procurement Officer at UNOPS. Pending the promulgation of the Financial Rules, which will contain the provisions for the dedicated UNOPS procurement regime, the procurement actions reviewed by the Committee will continue to be undertaken on the basis of the UNDP Financial Rules, which apply, *mutatis mutandis*, until the new Financial Rules are in force.

7. As a result of these arrangements, there have been considerable gains in efficiency. During the first quarter 1995, the Procurement Review and Advisory Committee has reviewed 76 cases for procurement actions valued at about $32 million. The average turn-around time required for the review has been reduced by 50 per cent.

D. UNOPS Financial Rules

8. The development of new UNOPS Financial Rules has been actively pursued in accordance with Regulation 10.1. Their promulgation is viewed as the culminating step that will complete the transition from UNDP/OPS to UNOPS. It

is dependent upon the entering into force of the agreements to be concluded, as noted in paragraph 4. UNOPS current target date for the promulgation of the Rules is December 1995.

III. RISKS, UNCERTAINTIES AND CONTINGENT LIABILITIES

9. Based upon the observations of ACABQ, UNOPS has initiated a risk analysis study with the assistance of the Office of Legal Affairs of the United Nations. The study was initiated at the end of February 1995 and is in progress at the time of writing the present report.

10. The study is looking into the risks and liabilities that are inherent in the business processes of a self-financing entity providing development services. Risk factors under review include, inter alia, contractual liabilities resulting from project procurement activities, extraordinary expenditures associated with the implementation of the United Nations Integrated Management Information System ("IMIS"), and the budgetary implications of any abrupt and unforeseeable reduction in force.

11. Until a proposal of an appropriate level for the reserve has been determined as a result of this study and acted upon by the Executive Board, the operational reserve is maintained at the level of $6.8 million, in compliance with decision 1/95. Once the study is completed, UNOPS will also be in a position to propose policy guidelines for the use of surplus income, should there be any.

IV. EXECUTIVE BOARD ACTION

12. The Executive Board may wish to take note of the present report.